



**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**24 CFR Part 203**

**[Docket No. FR-5658-N-01]**

**Federal Housing Administration (FHA): Direct Endorsement Program  
Solicitation of Comment on Timeframe for Conducting Pre-Endorsement Review**

**AGENCY:** Office of the Assistant Secretary for Housing—Federal Housing Commissioner, HUD.

**ACTION:** Request for comments.

**SUMMARY:** HUD is seeking comment on moving the timeframe that FHA conducts its pre-endorsement review of loans originated by Direct Endorsement lenders from a time that is prior to the lender closing each loan and before FHA's endorsement of the mortgage for insurance to a period after the loan has been closed. Comment is sought on whether this shift in time, as further described in this document, would reduce the processing time before the loans may be closed, and facilitate loan closing.

**DATES:** Comment Due Date **[Insert date that is 30 days after date of publication in the Federal Register.]**

**ADDRESSES:** Interested persons are invited to submit comments regarding this rule to the Regulations Division, Office of General Counsel, 451 7th Street, SW, Room 10276, Department of Housing and Urban Development, Washington, DC 20410-0500. There are two methods for submitting public comments. All submissions must refer to the above docket number and title.

**1. Submission of Comments by Mail.** Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW, Room 10276, Washington, DC 20410-0500.

**2. Electronic Submission of Comments.** Interested persons may submit comments

electronically through the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov). HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the [www.regulations.gov](http://www.regulations.gov) website can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

**Note:** To receive consideration as public comments, comments must be submitted through one of the two methods specified above. Again, all submissions must refer to the docket number and title of the notice.

*No Facsimile Comments.* Facsimile (FAX) comments are not acceptable.

**Public Inspection of Public Comments.** All properly submitted comments and communications submitted to HUD will be available for public inspection and copying between 8 a.m. and 5 p.m., Eastern Time, weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at 202-708-3055 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number through TTY by calling the Federal Relay Service at 800-877-8339 (this is a toll-free number). Copies of all comments submitted are available for inspection and downloading at [www.regulations.gov](http://www.regulations.gov).

**FOR FURTHER INFORMATION CONTACT:** Joy Hadley, Director, Office of Lender Activities and Program Compliance, Office of Housing, U.S. Department of Housing and Urban Development, 490 L'Enfant Plaza East, SW, Room P3214, Washington, DC 20024-8000; telephone number 202-708-1515 (this is not a toll-free number). Persons with hearing or speech

impaired persons may access this number through TTY by calling the toll-free Federal Relay Service at 800-877-8339.

## **SUPPLEMENTARY INFORMATION:**

### **I. Background**

FHA grants lenders unconditional Direct Endorsement authority to close loans without prior FHA approval in accordance with the terms and conditions of HUD's regulations in 24 CFR 203.3. Under the Direct Endorsement program, the lender underwrites and closes the mortgage loan without prior FHA review or approval. Before being granted unconditional Direct Endorsement authority, the lender must submit a specified number of loan files for review and approval by FHA as described in 24 CFR 203.3(b)(4). The regulations provide for the review of each loan file to be conducted by FHA, and the lender to be notified of the acceptability of the mortgage, prior to FHA endorsement of the mortgage for insurance. The Direct Endorsement program has been designed to give the lender sufficient certainty of FHA endorsement requirements to justify the assumption of the responsibilities involved in originating and closing mortgage loans without prior FHA review.

At present, FHA generally conducts this review of the loan files required under 24 CFR 203.3(b)(4) prior to closing and, if acceptable, issues a commitment to the lender at that time. After closing, the mortgage is then submitted to FHA for endorsement for insurance. While this is the general procedure utilized by lenders seeking unconditional Direct Endorsement approval, FHA currently allows lenders to close the loans before submission for review. A lender is eligible for unconditional Direct Endorsement authority once FHA has reviewed and found acceptable the requisite number of loan files, at either pre-closing or pre-endorsement review, provided that the lender has met the other requirements for Direct Endorsement approval under 24 CFR 203.3.

### **II. This Request for Comments**

### Proposed Transition of FHA's Review to Post-Closing, Pre-Endorsement.

Through this document FHA proposes for consideration and public comment shifting the timeframe for FHA's review of loans prior to endorsement from pre-closing to post-closing. FHA proposes that a lender applying for unconditional Direct Endorsement authority submit the loan files required under 24 CFR 203.3(b)(4) only after closing. After determining that the mortgage is acceptable and meets all FHA requirements, FHA will notify the lender that the loan has been endorsed.

Feedback is sought on whether the proposed change in review time would benefit the lender by reducing the amount of time between loan origination and closing, and would result in operational savings of time and costs associated with approval timeframes, which FHA recognizes can be lengthy at times. Feedback is also sought on whether the proposed change in review time would benefit the borrower; that is, would the borrower be able to take advantage of shorter interest rate lock-in periods, which could help to ensure that the borrower receives the best interest rate available at the lowest possible cost to the borrower.

The proposed change in review time should not alter the current quality of review of the loan file or the quality of the Direct Endorsement lender approval process. FHA guidance, issued in accordance with 24 CFR 203.3(b)(2), already requires the lender to certify that their underwriter(s) have the qualifications, expertise, and experience to underwrite mortgage loans in accordance with FHA requirements. Given the certification required of lenders, the shift in the timeframe for review may in fact result in enhanced lender accountability; that is, the lender will place more emphasis on ensuring that their underwriting staff is sufficiently trained prior to requesting Direct Endorsement authority. Properly trained underwriters will help to increase the number of loans that are found to be acceptable, resulting in an even higher percentage of loan files that meet FHA policies and

guidelines.

FHA analyzed data for mortgage loans that were submitted for review during the period beginning October 1, 2009 through June 30, 2012. The data demonstrated that 86.7 percent of all loans reviewed during this time period, and 90.5 percent of all loans reviewed year to date in FY 2012, were found to meet FHA policies and guidelines and were subsequently endorsed. In addition, of the lenders entering the Direct Endorsement review process during the October 1, 2009 through June 30, 2012 timeframe, 48.6 percent did not receive an unacceptable rating on any loan submitted for review, while 28 percent of lenders had only one loan rated unacceptable and 10.9 percent of lenders had two loans rated unacceptable. Overall, 87.4 percent of lenders had two or fewer loans rated unacceptable. Currently, in FY 2012, the percentage of lenders with two or fewer loans rated unacceptable has increased to 93.3 percent and is expected to continue to improve.

When material violations of FHA policies and procedures are uncovered during the loan file review, FHA will notify the lender that a preliminary assessment, based on file documentation, indicates that the loan contains material findings such that FHA is exposed to an unacceptable level of risk. FHA will provide the lender with an opportunity to present missing information or documentation to address the review findings and permit subsequent submission for endorsement. As is the current practice, if the lender is unable to adequately respond (or fails to respond) to the material findings, FHA will notify the lender that the loan is not eligible for endorsement.

The lender will have satisfied the pre-endorsement review requirements necessary to be approved for unconditional Direct Endorsement authority once FHA has reviewed and found acceptable the requisite number of loan files pursuant to 24 CFR 203.3(b)(4).

### **III. Solicitation of Comment**

Comment is solicited on the proposed shift in the timeframe for conducting its pre-endorsement review of the loans originated by prospective Direct Endorsement lenders from prior to the lender closing each loan to before FHA's endorsement of the mortgage for insurance. Comment is also solicited on other proposals that would reduce the processing time and facilitate loan closing

Date: March 12, 2013

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Carol J. Galante  
Assistant Secretary for Housing—  
Federal Housing Commissioner

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